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CAFTA Deserves to Pass

By Sebastian Mallaby

This week the administration aims to jam the Central American Free Trade Agreement through the House, having already secured Senate passage. Rep. Sherrod Brown, the Democrats' chief CAFTA blocker, has stated his party's ground for resistance, including in a Post op-ed on May 31. CAFTA would be the most important trade deal since the Bush administration took office, so it's worth considering Brown's arguments.

In his Post piece, Brown begins by questioning assertions that free-trade deals would boost U.S. prosperity. "An annual U.S. trade deficit that has gone from $38 billion to $617 billion in a dozen years makes those claims hard to believe," he wrote.

This is a digression, as every wavering House member should recognize. The purpose of free trade is partly to reduce prices for consumers and partly to force companies to compete with foreign ones; this pushes them to specialize in what they're best at, driving up productivity and, hence, incomes.

What happens to the trade balance is a different matter entirely. If a country saves the proceeds from trade, it will be producing more but not buying more: As some of those extra products go abroad, trade will move toward surplus. But if a country spends the extra income and then borrows a bunch more, as has happened in the United States, its extra output will be swamped by its extra consumption, including consumption of imports. Trade will move toward a deficit.

Just think of your own finances. Free trade is like a pay raise: You'd be nuts to refuse it. But if you splurge on a vacation or an addition for your home, you may still find yourself in deficit.

Next, Brown says that trade rhetoric rings hollow because "since Congress passed President Bush's trade promotion authority three years ago, we have lost one-sixth of our manufacturing jobs."

Actually, data from the Bureau of Labor Statistics show that manufacturing employment has fallen by 9 percent, not Brown's 16 percent, since the passage of trade promotion authority in December 2001. But the main point that Brown is missing is that total private-sector employment has gone up. The loss of manufacturing jobs has been outweighed by the creation of other types of jobs.

In any case, the disappearance of manufacturing jobs isn't mainly a reflection of trade deals that drive factories abroad. Most factories are staying here: U.S. manufacturing output is at an all-time high, having jumped 64 percent since 1990. The reason jobs are vanishing is that technology boosts productivity, so a smaller workforce can do more.

And to the extent that manufacturing is based abroad, the boogeyman of low-wage developing countries is not the only factor. The U.S. manufacturing deficit is split roughly equally between high-wage countries (led by Japan and Germany) and low-wage ones (overwhelmingly, China).

Brown also claims that trade with Central America has no allure because the region is too poor to buy U.S. products. True, the boost to U.S. exports won't be huge; reinvigorating the stalled talks at the World Trade Organization would have vastly more impact. The United States exports less to the CAFTA countries (the five in Central America plus the Dominican Republic) than to France, but a bit more than to Italy. Still, the American Farm Bureau estimates that CAFTA will expand U.S. farm exports by $1.5 billion annually.

Finally, Brown suggests that ordinary Central Americans oppose the CAFTA deal, which has been thrust on them by business. It's true that anti-CAFTA protesters have come out into the streets in Guatemala, El Salvador and Costa Rica, but the passion of a few thousand people should not be mistaken for the will of the majority. Brown should acknowledge that the region's leaders, all democratically elected, unanimously support the deal; that they consulted civil society groups before and during the talks; and that they have visited the United States to urge CAFTA's ratification. Two of the three countries that have ratified the deal so far have done so with overwhelming majorities. Guatemala's Congress voted in favor of CAFTA, 126 to 12. In Honduras, 100 of 128 legislators approved it.

None of which is to pretend that the CAFTA deal is perfect. U.S. sugar barons have preserved their cherished quotas almost totally intact, protecting their profits at the expense of Central American exporters and American consumers (but the barons are still lobbying against the deal anyway). Big Pharma has pushed for limits on Central American access to generic drugs, lending credence to the claim that trade deals are a corporate plot against consumers.

But, for all its flaws, CAFTA deserves to pass the House. A University of Michigan study found that it would increase U.S. gross domestic product by a modest 0.2 percent and boost Central America's by a substantial 4.4 percent. The study also found that CAFTA would create nearly 300,000 new jobs in Central America in textiles, apparel and footwear. How can Democrats who care about workers possibly vote against this?